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ONE ARTICLE FROM OER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW  
ENDING 19 JANUARY 1978. REQUEST ARTICLE BE PASSED TO AMBASSADOR,  
DCM, ECONOMIC SECTION AND OTHER WORKING LEVEL STATE OFFICERS.

PLEASE PASS TO US MISSION DECP.

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GLOBAL CURRENT ACCOUNTS: PATTERN OF 1976 CONTINUED  
LAST YEAR.

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1. THE GLOBAL CURRENT ACCOUNT TRENDS THAT APPEARED IN 1976 WERE REAFFIRMED THROUGHOUT 1977. IN BOTH YEARS, THE OPEC COUNTRIES' SURPLUS INCREASED, THE INDUSTRIAL COUNTRIES' DEFICIT GREW, AND THE DEFICITS OF THE NON-OPEC LDCS AND THE COMMUNIST COUNTRIES DECLINED. IN 1975 ALL THESE AGGREGATES HAD MOVED IN OPPOSITE DIRECTIONS.

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2. THE MOST IMPORTANT FACTORS INFLUENCING THE 1977 CURRENT ACCOUNT DEVELOPMENTS WERE (A) SLOW ECONOMIC RECOVERY AND CAUTIOUS DEMAND MANAGEMENT POLICIES IN THE INDUSTRIAL COUNTRIES, (B) PRICE AND EXCHANGE RATE RELATIONSHIPS AMONG INDUSTRIAL COUNTRIES, AND (C) SLACKENING IMPORT DEMAND BY OPEC AND MANY NON-OPEC LDCS. AS A CONSEQUENCE, THE OTHER MAJOR COUNTRY GROUPS ALL IMPROVED THEIR CURRENT ACCOUNT POSITIONS AT THE EXPENSE OF THE INDUSTRIAL COUNTRIES AS A WHOLE.

## DEVELOPMENTS IN THE INDUSTRIAL COUNTRIES.

3. THE COMBINED 1977 CURRENT ACCOUNT DEFICIT OF THE INDUSTRIAL COUNTRIES GREW BY \$5 BILLION, LARGELY BECAUSE THE UNITED STATES MOVED FROM AN \$8 BILLION SURPLUS TO AN \$11 BILLION DEFICIT. ASTRIK EXCLUDING THE UNITED STATES, THE OTHER SIX MAJOR INDUSTRIAL COUNTRIES SHOWED AN IMPROVEMENT OF \$16 BILLION. THE LARGEST IMPROVEMENTS CAME IN THE CURRENT ACCOUNTS OF JAPAN, THE UNITED KINGDOM, AND FRANCE.

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(ASTRIK IN THIS ARTICLE, ALL CURRENT ACCOUNT BALANCES COVER GOODS, SERVICES (INCLUDING REINVESTED EARNINGS), AND PRIVATE TRANSFERS.)

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4. JAPAN ENHANCED ITS STRONG SURPLUS POSITION BY ALMOST \$7 BILLION, BECAUSE OF SLUGGISH DOMESTIC DEMAND AND STRONG EXPORT SALES, WHICH WERE NOT SUBSTANTIALLY Affected BY AN APPRECIATING YEN.

5. THE UNITED KINGDOM SWUNG FROM DEFICIT TO SURPLUS WITH A \$3.7 BILLION IMPROVEMENT BROUGHT ABOUT BY RISING OIL REVENUES AND PROGRESS AGAINST INFLATION.

6. ITALY IMPROVED ITS CURRENT ACCOUNT POSITION BY \$3.5 BILLION AND ALSO MOVED FROM DEFICIT TO SURPLUS, LARGELY BECAUSE OF AN IMF-APPROVED AUSTERITY PROGRAM, A DEPRECIATING LIRA, AND BRISK TOURIST TRADE.

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7. FRANCE REDUCED ITS DEFICIT BY \$2.5 BILLION WITH CONSERVATIVE ECONOMIC POLICIES AND A STRONG SERVICES ACCOUNT PERFORMANCE.

8. WEST GERMANY'S CURRENT ACCOUNT SURPLUS REMAINED UNCHANGED AT \$7.2 BILLION AS A RISE IN THE TRADE SURPLUS WAS OFFSET BY A LARGE INCREASE IN THE SERVICES DEFICIT. APPRECIATION OF THE DEUTSCHEMARK DID NOT SUBSTANTIALLY IMPAIR THE COUNTRY'S FOREIGN TRADE PERFORMANCE.

9. CANADA SAW A RISE IN ITS TRADE SURPLUS, WHICH WAS ROUGHLY COUNTERBALANCED BY A RISE IN ITS SERVICES DEFICIT.

10. AMONG OTHER DEVELOPED COUNTRIES, THE LARGEST CHANGES WERE THE IMPROVEMENT IN THE POSITION OF SOUTH AFRICA AND THE DETERIORATION IN THE POSITIONS OF THE NETHERLANDS AND YUGOSLAVIA.

11. SOUTH AFRICA MOVED FROM DEFICIT TO SURPLUS, WITH A \$2.9 BILLION SWING, LARGELY CAUSED BY RISING GOLD PRICES, HIGHER MINERAL EXPORTS FROM EXPANDED PORT FACILITIES, AND RESTRAINED IMPORT GROWTH.

12. YUGOSLAVIA FELL INTO DEFICIT AS ITS CURRENT ACCOUNT DETERIORATED BY \$1.9 BILLION, MAINLY BECAUSE OF IMPORT INCREASES THAT ACCOMPANIED AN EASING OF RESTRICTIVE ECONOMIC POLICIES AND IMPROVED ACCESS TO FOREIGN BORROWING.

\* 13. THE NETHERLANDS LOST \$1.8 BILLION FROM ITS

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CURRENT ACCOUNT SURPLUS, LARGEY BECAUSE OF RISING IMPORTS, SLUGGISH NATURAL GAS SALES, AND AN APPRECIATING GILDER.

14. AMONG THE SMALLER DEVELOPED COUNTRIES, THE WORSENING IN NORWAY'S CURRENT ACCOUNT CAME FROM WEAK EXPORT GROWTH AND STRONG OIL INDUSTRY AND CONSUMER IMPORT DEMAND. THE IMPROVEMENT IN BELGIUM/LUXEMBOURG'S POSITION WAS ASSISTED BY CONSERVATIVE DOMESTIC ECONOMIC POLICIES AND FAVORABLE EXPORT DEVELOPMENTS. INFLATION PROBLEMS AND DISAPPOINTING EXPORT PERFORMANCES PLAYED MAJOR ROLES IN CURRENT ACCOUNT DETERIORATIONS IN AUSTRALIA, SWEDEN, AND TURKEY.

OPEC COUNTRIES.

15. OVERALL, THE OPEC CURRENT ACCOUNT SURPLUS ROSE ABOUT \$3.4 BILLION IN 1977. INCREASED OIL REVENUES (UP \$12 BILLION) AND HIGHER INVESTMENT INCOME RECEIPTS (UP \$2 BILLION) WERE ACCCOMPANIED BY REDUCED IMPORT GROWTH, DOWN TO 12 PERCENT FROM 18 PERCENT IN 1976. THE MAJOR GAINERS WITHIN OPEC WERE SAUDI ARABIA, LIBYA, AND INDONESIA, LARGEY A RESULT OF INCREASED OIL EXPORT VOLUME. THE SUBSTANTIAL SURPLUSES OF KUWAIT AND IRAN FELL OFF SLIGHTLY. THE \$500 MILLION DECLINE IN THE CURRENT ACCOUNT SURPLUS OF VENEZUELA REFLECTED A VOLUNTARY RESTRAINT OF OIL PRODUCTION AND AN ESCALATION OF IMPORTS.

THE NON-OPEC DEVELOPING COUNTRIES.

16. BASED ON PARTIAL DATA, THE 1977 NON-OPEC LDC CURRENT ACCOUNT SHOWED A \$3 BILLION IMPROVEMENT. EXPORT PRICE INCREASES FOR COFFEE (21 PERCENT), TEA (46 PERCENT), AND COCOA (89 PERCENT) AIDED A RELATIVELY SMALL GROUP OF LDCS. EXPORTERS OF SUGAR AND COTTON WERE HIT BY PRICE DECLINES OF AROUND 26 PERCENT. LDCS WITH LARGE EXPORTS OF MANUFACTURED GOODS HAD A GOOD YEAR, PARTICULARLY IN THE US MARKET.

17. BRAZIL AND MEXICO REDUCED THEIR DEFICITS BY A TOTAL OF \$3 BILLION EACH, MAINLY THROUGH IMPORT RESTRAINT, PRUDENT DOMESTIC ECONOMIC POLICIES, AND STRONG EXPORTS, PARTICULARLY COFFEE AND, IN THE CASE OF MEXICO, OIL.

18. SOUTH KOREA BARELY MOVED INTO SURPLUS FOR THE FIRST TIME AS BUOYANT EXPORTS OF MANUFACTURES AND SERVICES STRENGTHENED THE CURRENT ACCOUNT

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BY \$500 MILLION.

19. ARGENTINA, INDIA, AND TAIWAN INCREASED THEIR SURPLUSES ON THE BASIS OF GOOD EXPORT PERFORMANCES.

COMMUNIST COUNTRIES.

20. THE \$2 BILLION REDUCTION IN THE COMMUNIST COUNTRIES' DEFICIT CAME ALMOST ENTIRELY FROM THE SOVIET UNION. WITH RESTRAINED IMPORT GROWTH AND STRONG SALES TO WESTERN EUROPE, THE SOVIET UNION REALIZED A CURRENT ACCOUNT IMPROVEMENT OF AT LEAST \$2 BILLION. CHANGES IN THE CURRENT ACCOUNT POSITIONS OF CHINA AND THE EAST EUROPEAN COUNTRIES ARE BELIEVED TO HAVE BEEN SLIGHT.

THE OUTLOOK FOR 1978.

20. NO DRAMATIC CURRENT ACCOUNT CHANGES ARE EXPECTED IN 1978 BECAUSE OF CONTINUED SLUGGISH ECONOMIC RECOVERY IN DEVELOPED COUNTRIES. THE SURPLUS/DEFICIT PATTERN FOR INDIVIDUAL DEVELOPED COUNTRIES SHOULD REMAIN ESSENTIALLY THE SAME, ALTHOUGH THE WEST GERMAN REFLATION PROGRAM MAY HELP TO REDUCE THE UNEVEN DISTRIBUTION OF CURRENT ACCOUNT SURPLUSES AND DEFICITS WITHIN THE GROUP LATER THIS YEAR. THE OPEC SURPLUS SHOULD SHRINK, LARGELY BECAUSE OF THE FREEZE ON OIL PRICES AND A PICKUP IN IMPORTS FROM THE 1977 SLACK PERIOD. THE NON-OPEC LDC DEFICIT COULD WORSEN SOMEWHAT AS COFFEE, TEA, AND COCOA PRICES DECLINE AND AS OTHER EXPORT PRICES RECEIVE LITTLE STIMULATION FROM INDUSTRIAL COUNTRY DEMAND. (CONFIDENTIAL) E 1,2,3,IMPDET,WNINTEL.>

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